HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK

Charlottetown CA

Canada Mortgage and Housing Corporation

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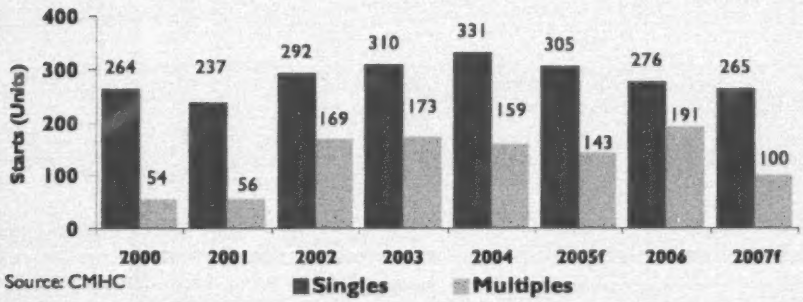
Housing Market Will Continue to Soften

The Charlottetown housing market reached a 15 year high in 2004 with a total of 490 new units in the City. However, since this peak, the level of new housing starts has begun to return to more sustainable levels. This significant increase in activity, starting in 2001, was the result of a number of variables aligning to facilitate the growth. These consisted of low interest rates, steady employment growth, positive in-migration, and when the cycle began, relatively low home prices. While most of these market fundamentals remain, the recent price appreciation of both new and existing homes is beginning to have a negative impact and will continue to do so over the forecast period. There has also been a significant level of activity related to multiple starts. Most of the current available units should be absorbed by the end of 2007. As such it is expected that the overall housing market will decline slightly over the forecast period due to fewer multiple starts in the rental market, and to

Figure 1

Multiple Starts to Slow Over the Forecast Period



Source: CMHC

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a lesser extent, a decline in single starts.

The rate of employment has performed better than expected in 2007 whereas the labour force has weakened. Both should continue to show positive growth in 2008. As a result there have been a few bright spots in 2007 with increases in both the business services and agricultural sectors reported. Employment in the construction sector has also been stable in 2007 due to numerous large nonresidential projects remaining under construction. Although the rate of growth has slowed there are still better employment opportunities in the capital region compared to other parts of the province. As a result this has continued to entice many to relocate to the capital area. Signs that diversification in the region continues should help to reinforce the housing market in coming years.

Interest rates have remained low over the past few years and have remained fairly steady during the past year. While rates are expected to edge up slightly over the forecast period, this is not expected to be enough to dissuade potential homebuyers.

Positive net-migration is also one of the factors contributing to the impressive demand for housing in the capital region. The 2006 Census showed that the Charlottetown CA recorded a net population growth of 1,391 people or 2.4 per cent, from 2001 to 2006. To further examine this trend, Statcan's Tax Filer Data can be used to give us an indication of where these people are coming from. The data shows that in any given year about 70 per cent of the people moving to the capital region are coming from elsewhere in the province, with the rest coming from other regions of the country or from international locations. This provides support to the trend that there are a number of ex-Islanders moving home to retire or finish their careers. This is a great benefit to the local housing market as many of these people are coming from much more expensive housing markets, and as a result have accumulated significant amounts of equity. This is one explanation for the substantial increase in the new home price over the past five years. The negative aspect to this data is that it shows that the Island is continuing to lose people in the 18-24 cohort, while the largest influx is in the 45-64 cohort. Although this will have very little impact on the forecast for the next two years, it may dampen the housing market over the longer term especially in the first time segment of the market.

While the local housing market has been performing well above average since 2001, it is expected to continue its return to more sustainable levels this year and next. The construction of single and semi-detached units for homeownership and the sale of existing homes will fare well during the next year, while apartment starts should decline.

Figure 2

Average MLS® Sale Price to Rise Over the Forecast Period

Source: PEI Real Estate Board f: CMHC Forecast

Rental Market: Fewer Vacant Units Expected in 2008

The vacancy rate should remain almost flat in 2007 due to a combination of demand for rental accommodations and a slowdown in new rental construction in the Charlottetown area. This should result in vacancy rate inching down to 4.7 per cent in October of this year from 4.8 per cent during the same period last year. The vacancy rate should decline further to 4.3 per cent in October 2008 as the supply of new units continues to slow. Demand will be supported by sustained in-migration and the continued easing of rental construction over the forecast period.

Expect to see a limited increase in the average rent over the forecast period due to fewer new units, which tend to be at the high end of the rental spectrum, and a minimal allowable rent increase of one per cent for 2008. Together these should result in average two-

bedroom rents of $655 and $675 in 2007 and 2008 respectively.

Resale Market: Sales Activity to Remain Relatively Stable

The number of resale transactions in the Charlottetown area has remained above the 500 level once since the year 2000, and is expected to continue to remain above this level in both 2007 and 2008. In fact sales are expected to increase to 550 units in 2007, a 13 per cent increase over 2006, before slowing marginally to 500 sales in 2008. Sustained employment growth, strong new listings and the rising cost of new homes will help to keep MLS® sales at these levels over the next two years. Demand for existing homes will be weakened somewhat by the impact of mortgage rates and the recent appreciation of prices. However, the growing gap between the cost of new and existing home prices will continue to support more potential home buyers to focus on the existing market.

Average price growth is expected to slow in 2008 after jumping almost $20,000 in 2006 and another $15,000 in 2007. This tremendous growth has been fueled in part by an increased number of sales in the Stratford area, which on average are newer and more expensive. There has also been more waterfront or water view properties sold and these tend to be more expensive on average across the province. Expect the average MLS® sales price to grow by 11 per cent in 2007 before reaching a more moderate five per cent increase in 2008.

New Home Construction Poised to Slow

New home construction in the Charlottetown CA should slow in 2007 and 2008, mainly due to fewer rental starts. The 2006 levels were buoyed by three condominium projects which accounted for almost 20 per cent of the total starts in the area and more than made up for the slump in rental and semi-detached starts. In 2007 semi-detached units are expected to exceed the 2006 levels due to strong demand for the product from first-time home buyers. As first-time buyers show a clear preference for new homes compared to existing homes, and the cost of a new single-detached homes is now out of the financial reach of some potential buyers, semi-detached units are the logical alternative for these buyers. As such it is expected that the number of semi-detached units will exceed the 2006 level in both of the next two years.

Single starts, although slowing from the near record pace set in 2004, have continued to see activity at above average levels. This decrease can be partially attributed to rising new home prices which have caused some potential buyers to opt for the resale market. The current influx of people moving to the Island, however, should offset this trend and as such we can expect 265 units in 2007 before seeing activity slow to 250 units in 2008.

Multiple rental starts have been on the decline every year except one since reaching a 15 year high in 2002 with 143 units. Due to increased rental construction the vacancy rate has been on the rise, reaching 4.8 per cent in 2006, from the almost record low of 1.8 per cent in 2001. With the vacancy rate forecast to reach 4.7 per cent in October 2007, expect to see developers continuing to focus on multiple starts for the home-ownership market. As such, rental starts are expected to remain below the 10-year average in both 2007 and 2008.

Forecast Summary
Charlottetown CA
Fall 2007

	2004	2005	2006	2007f	% chg	2008f	% chg
Resale Market							
MLS® Sales	506	521	486	550	13.2	500	-9.1
MLS® New Listings	783	903	970	940	1,000	900	-4.3
MLS® Average Price ($)	131,013	139,988	144,036	160,000	11.1	167,500	4.7
New Home Market							
Starts:							
Single-Detached	331	305	276	250	-9.4	250	0.0
Multiples	159	143	191	125	-34.6	125	0.0
Starts - Total	490	448	467	375	-19.7	375	0.0
Average Price ($):							
Single-Detached	179,488	188,741	186,774	192,500	3.1	198,275	3.0
Median Price ($):							
Single-Detached	165,000	175,000	175,000	180,250	3.0	185,500	2.9
New Housing Price Index (% chg.)	3.6	4.2	2.2	3.0	-	3.0	-
Rental Market							
October Vacancy Rate (%)	4.2	4.4	4.8	4.7	-0.1	4.3	-0.4
Two-bedroom Average Rent (October) ($)	610	617	638	655	2.7	675	3.1
Economic Overview							
Mortgage Rate (1 year) (%)	4.80	5.80	6.30	6.86	-	7.19	-
Mortgage Rate (5 year) (%)	6.05	6.30	6.45	7.02	-	7.41	-
Annual Employment Level (,000)	30,975	31,600	32,175	32,500	1.01	32,825	1.00
Employment Growth (%)	1.3	2.0	1.8	1.0	-	1.0	-
Unemployment rate (%)	8.3	8.1	7.6	7.4	-	7.6	-
Net Migration	329	-5	155	200	29.03	250	25.00

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

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